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SENSITIVE
STATE PASS TO THE MILLENNIUM CHALLENGE ACCOUNT
USTR FOR AMB SHINER AND PCOLEMAN
AF/S FOR KDAVISON
USDOC/ITA FOR AHILLIGAS
E.O. 12958: N/A
TAGS: ETRD EAID PREL MZ AGOA MCC TIFA
SUBJECT: MOZAMBIQUE CAUTIOUSLY APPROACHES THE PROSPECT OF A FTA

¶1. (SBU) Summary. Ambassador met with Minister of Industry and Commerce Carlos Morgado on July 22 to follow-up on discussions held between Morgado and USTR officials in Washington in early July on the prospect for a US-Mozambique FTA, as well as to discuss the status of Mozambique's participation in the MCA and how Mozambique can better take advantage of AGOA. Ambassador was accompanied by USAID Enabling Environment Team Leader Tim Born and Econ/pol officer Elizabeth Jaffee (notetaker); Minister Morgado was accompanied by four Ministry officials, including the Director for International Affairs. While obviously welcoming the offer, Morgado was cautious and non-committal regarding the FTA. The key concern from the stand-point of the Mozambican government (GRM) is the lack of technical capacity. This problem is so acute that technical assistance would be necessary to assist the GRM formulate a position on whether to even move forward with a FTA. The Ambassador outlined both the process for negotiations and potential benefits from a FTA. A useful first step would be the National Assembly's ratification of the Bilateral Investment Treaty (BIT), which has been awaiting ratification by Mozambique's National Assembly for over four years. Morgado is drafting a letter for USTR which will highlight the GRM's concern over its limited capacity to negotiate and request technical assistance. End Summary

FTA

¶2. (SBU) The Ambassador opened the meeting with Morgado by describing the USG's broader interest in negotiating a FTA with a sub-Saharan African country and our particular focus on Mozambique as a key reformer in the region. A US-Mozambican FTA was described as an opportunity to deepen our trade relationship, broaden reforms within Mozambique, and put a "seal of approval" on Mozambique as a site for investment, including third-country investment. It was noted that this is a collaborative and mutually beneficial process and that capacity building would be "built-in" to any negotiations. However, it was stressed that Mozambique had to make its own decision based on the costs and benefits of a FTA. The Ambassador noted the various stages of FTA negotiations, highlighting the role of both a BIT and TIFA. The fact that Mozambique's National Assembly has yet to ratify the BIT, despite the US Senate's ratification in 2000, was raised as a concern. Mozambique was encouraged to ratify the BIT as soon as possible.

¶3. (SBU) Morgado stated that he made clear during his meeting with USTR that Mozambique did not yet have a formal position on pursuing FTA negotiations. Mozambique's limited trade capacity was cited as the principal constraint. It is only within the past few years that Ministry of Industry and Commerce (MIC) personnel have begun to obtain the skills necessary for active participation in regional or multilateral trade negotiations. US-Mozambique FTA negotiations would further strain limited capacity, particularly as Mozambique is already engaged in on-going negotiations with Europe and SADC. Morgado described the US-SACU FTA negotiations as potentially negatively impacting prospects for regional integration (specifically, SADC), by selected countries negotiating within an existing trade block. Turning to next steps, Morgado noted that he will be sending a letter to Ambassador Shiner that will highlight Mozambique's limited capacity and request technical assistance from the USG. The need for "PR" within the GRM on pursuing potential FTA negotiations was also discussed. Regarding the BIT, Morgado noted that as a treaty the BIT must be ratified by the National Assembly, which is notoriously slow and has other legislative priorities. He further noted that the GRM had been advised by Washington that a BIT must be approved by the National Assembly, not by executive decree, which he said could be done by the end of the month. Initiation of FTA negotiations could provide the political impetus for the National Assembly to ratify the BIT. Post would appreciate clarification on whether the USG requires National Assembly ratification of a BIT.

AGOA/MCC

¶4. (SBU) When questioned as to why Mozambique had not taken greater advantage of AGOA, Morgado cited two key factors: 1) inadequate resources/technical capacity for promotion activities and 2) supply side constraints. He described the GRM's strategy under AGOA as focused on several key sectors. In particular, Morgado highlighted the strong potential for increased exports of value-added aluminum products such as coils and axles. (Note: Morgado has previously expressed his interest in taking advantage of Mozal, a huge aluminum smelter located outside of Maputo that accounts for a significant portion of Mozambique's export earnings. End Note) Another potential area for increased exports is processed foods (specifically, sugar-based products such as jams). Morgado down-played the potential for shrimp, citing difficulties for local exporters to meet USG health and SPS requirements, as well as already established links to Europe and capped supply. The link between potential MCC projects and addressing supply side constraints was noted, with the Ambassador stressing the importance of the GRM communicating directly and regularly with MCC officials. Morgado stated that Mozambique had agreed on a joint principal for MCC and would submit a proposal by the end of August.

¶5. (SBU) Comment: There is no question that a FTA would be a significant boost to Mozambique. However, post shares Morgado's concerns about Mozambique's limited capacity to negotiate. Through USAID, the USG is already providing significant technical assistance to MIC, which has been critical in developing national capacity. Much more extensive assistance will be required for any actual FTA negotiations. Moreover, while Mozambique is rightly considered a committed "reformer" and a model for other African countries, businesses face considerable constraints. An ineffective judiciary, inflexible labor laws, and extensive red-tape continue to inhibit trade and investment. In the near-term, a TIFA could provide an excellent mechanism to begin discussions on addressing these issues. In the medium to long-term, a FTA could provide both the political and economic impetus for the GRM to removing these constraints. We look forward to USTR's response to Morgado's letter. End Comment
LA LIME